CANADA

NATIONAL ENERGY BOARD
REASONS FOR DECISION

In the Matter of the Application under
Part IV of the National Energy Board Act
and under Part II of the Northern Pipeline Act
(Toll Application)

of

Foothills Pipe Lines (Yukon) Ltd.

August 1982

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Ce rapport est publié
séparément dans les
deux langues officielles.

NATIONAL ENERGY BOARD

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by Foothills Pipe Lines (Yukon) Ltd., (hereinafter called "the Applicant", "the Company", or "Foothills (Yukon)") for certain orders respecting its tolls pursuant to Part IV of the National Energy Board Act and Part II of the Northern Pipeline Act, filed with the Board under File No. 1562-F6-3.

HEARD in Ottawa on:

28, 29 and 30 June and 6 July 1982

BEFORE:

R.F. Brooks	Presiding Member
J.L. Trudel	Member
R.B. Horner	Member

APPEARANCES:

Mr. J. Lutes	) Foothills Pipe Lines (Yukon) Ltd.
Mr. E.B. McDougall	) Northern Border Pipeline Company
Mr. Robert Cohen	) TransCanada PipeLines Limited
Mr. J.W. Gallagher	) Petro-Canada
Mr. W.T. Houston	) Trans Québec & Maritimes Pipeline Inc.
Mr. S.F. McAllister	) Consolidated Natural Gas Limited
Mr. K.F. Keeler	) Pan-Alberta Gas Ltd.
Mr. A.L. Shillington	) Union Gas Limited
Mr. A.S. Hollingworth	) Alberta Petroleum Marketing Commission
Mr. R.G. Makuch Mr. H. Wetston	) National Energy Board)

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ABBREVIATIONS AND DEFINITIONS

"Act"	- Northern Pipeline Act.
"AFUDC"	- Allowance for Funds Used During Construction.
"ANG"	- Alberta Natural Gas Company Ltd
"APMC"	- Alberta Petroleum Marketing Commission
"Associated Export Licences"	- Those export licences which authorized the export of Canadian gas through the prebuild system.
"CCA"	- Capital Cost Allowance
"FDCE"	- Final Design Cost Estimates
"Foothills (Yukon)", "the Company" or "the Applicant"	- Foothills Pipe Lines (Yukon) Ltd. is the parent company responsible for the Canadian portion of the Alaska Highway Natural Gas Pipeline Project. Foothills (Yukon) is currently sponsored 50 percent each by NOVA and Westcoast. The ownership of the pipeline is segmented into six federally-incorporated subsidiaries.
"Foothills (South Yukon)"	- Foothills Pipe Lines (South Yukon) Ltd., owned 100 percent by Foothills (Yukon), will own, operate and manage the approximately 830 kilometres of pipeline through the southern Yukon.
"Foothills (North B.C.)"	- Foothills Pipe Lines (North B.C.) Ltd., owned 51 percent by Foothills (Yukon) and 49 percent by Westcoast, will own, operate and manage the approximately 710 kilometres of pipeline through northern British Columbia.
"Foothills (Alta.)"	- Foothills Pipe Lines (Alta.) Ltd., owned 51 percent by Foothills (Yukon) and 49 percent by NOVA, will own, operate and manage the approximately 1 300 kilometres of pipeline through Alberta.

"Foothills (Sask.)" - Foothills Pipe Lines (Sask.) Ltd., owned 51 percent by Foothills (Yukon), 44 percent by TransCanada and 5 percent by Consolidated Pipe Lines Company, will own, operate and manage the approximately 260 kilometres of pipeline in Saskatchewan.

"Foothills (South B.C.)" - Foothills Pipe Lines (South B.C.) Ltd., owned 51 percent by Foothills (Yukon) and 49 percent by ANG, will own, operate and manage the approximately 170 kilometres of pipeline through southern British Columbia.

"Foothills (North Yukon)" - Foothills Pipe Lines (North Yukon) Ltd., owned 100 percent by Foothills (Yukon), will own, operate and manage the approximately 1 180 kilometres of pipeline through the Yukon and Northwest Territories to connect Mackenzie Delta gas to Whitehorse along the Dempster Highway.

"GNP" - Gross National Product.

"IROR" - Incentive Rate of Return.

"Mainline" - The Canadian portion of the Alaska Highway Natural Gas Pipeline which will transport Alaskan gas.

"Marine" - Marine Pipeline Construction Company

"NEB" or "the Board" - National Energy Board

"Northern Border" - Northern Border Pipeline Company

"NOVA" - NOVA, AN ALBERTA CORPORATION, formerly The Alberta Gas Trunk Line Company Limited.

"NPA" - Northern Pipeline Agency.

"PFUDC" - Provision for Funds Used During Construction.

"TransCanada" - TransCanada PipeLines Limited

"Westcoast" - Westcoast Transmission Company Limited.

"1979-1980 Tariff Hearing"	- Public Hearing held in four phases during 1979 and 1980 respecting the tariffs and tolls to be charged, the financing of the pipeline and other related matters.
Phase I Decision	- "National Energy Board Reasons for Decision in the Matter of Phase I of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., July 1979."
Phase II Decision	- "National Energy Board Reasons for Decision in the Matter of Phase II of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., October 1979."
Phase III Decision	- "National Energy Board Reasons for Decision in the Matter of Phase III of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., November 1979."
Phase IV(a) Decision	- "National Energy Board Reasons for Decision in the Matter of Phase IV(a) of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., March 1980."
Phase IV(b) Decision	- "National Energy Board Reasons for Decision in the Matter of Phase IV(b) of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., May 1980."
Phase IV(b) Re-Opened	- "National Energy Board Reasons for Decision in the Matter of a Public Hearing Respecting Tariffs and Tolls to be Charged, the Financing of the Pipeline, and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., June 1980."

August 1981 Decision - "National Energy Board Reasons for Decision in the Matter of a Public Hearing Respecting the Tolls to be Charged by Foothills Pipe Lines (Yukon) Ltd. in the Operation of its Prebuild Facilities, and Other Related Matters, August 1981."

CHAPTER I

INTRODUCTION AND BACKGROUND

During 1979 and 1980, Foothills Pipe Lines (Yukon) Ltd. appeared before the Board at a hearing conducted in four phases concerning the tolls and tariffs to be charged on the Canadian sections of the Alaska Highway Natural Gas Pipeline, and other related matters including the Incentive Rate of Return Scheme and the financing of the Canadian sections.

Concurrently with the last part of the tariff hearing, Phase IV(b), the Board convened a hearing commencing on 29 April 1980 to provide Foothills (Yukon) with an opportunity to comply with the requirements of the amended Condition 12(1) of Schedule III to the Northern Pipeline Act, that is, to establish to the satisfaction of the Board and the Minister responsible for the Northern Pipeline Agency that financing had been obtained for the prebuild facilities and could be obtained at that time for the rest of the mainline in Canada. In July 1980, as a result of these two hearings, the Federal Government approved construction of the southern, or prebuild portions, of the system.

Construction of the Western Leg facilities, to be prebuilt in Zone 7 in southwestern Alberta and Zone 8 in southeastern British Columbia, commenced in August 1980 and was scheduled for completion early in 1981. There were a number of matters arising from the 1979-1980 Tariff Hearing which needed to be resolved before operation of the Western Leg prebuild facilities could commence. The first flow of gas began on 1 October 1981.

A public hearing was held, commencing 31 March 1981, in order to resolve these and other issues raised by the Board, the Applicant and interested parties. At that time, the Eastern Leg facilities were not scheduled for completion until the fall of 1982. Many of the same issues which related to the Western Leg have also arisen in respect of the Eastern Leg prebuild facilities. These and a number of additional issues needed to be resolved before the Eastern Leg could go into operation by 1 September 1982.

Accordingly, upon receipt of an application from the Company, the Board issued Order No. RH-5-82 on 13 May 1982, directing that a public hearing be held on these and other matters commencing 28 June 1982. The following are the issues on which evidence and submissions were heard.

THE APPLICATION

WESTERN LEG

1. Request for Changes in the Incentive Rate of Return Scheme

During Phase III of the 1979-1980 Tariff Hearing, the Board approved details of the IROR Scheme to be applied to the equity investment in the Canadian section of the Alaska Highway Natural Gas Pipeline. The scheme was finalized with respect to the prebuild in August 1981 under Board Order TG-5-81. As a result of difficulties experienced by the Company in capturing all the costs, which are to be measured under the scheme, within the time frame provided in Order TG-5-81, the Company requested that it be allowed to include costs incurred up to 31 March 1982 for purposes of the IROR calculations for the Western Leg.

2. Rate Base

As a result of the August 1981 hearing, the Board approved the rate base for Zones 7 and 8 on a provisional basis only. In the current application, the Company requested that the audited costs to 31 December 1981 be approved for rate base purposes and that unaudited costs from 1 January to 31 March 1982 be approved on a provisional basis.

3. Operating and Maintenance Expense Variance for 1981

The Company is allowed to include in its cost of service billings, operating and maintenance expenses up to previously approved budgets. Any variances were to be submitted for Board approval and subsequent inclusion in later billings. Accordingly, the Company applied for disposition of its Operating and Maintenance Expense Variance for 1981.

EASTERN LEG

1. Cost of Service
2. Rate Base and Incentive Rate of Return
3. 1982 Operating and Maintenance Budgets

In expectation of commencing operation of the Eastern Leg on 1 September 1982, the Company filed an estimate of the 1982

cost of service for Zones 6 and 9. This filing was made in conjunction with an application for specific approval for each zone of a provisional rate base, including a provisional one-time adjustment calculated under the IROR Scheme, and 1982 operating and maintenance budgets.

4. Off-Line Gas Sales in Saskatchewan

Saskatchewan Power Corporation has approached Pan-Alberta Gas Ltd. to supply natural gas for small communities in close proximity to the facilities in Saskatchewan. This gas would be transported in Saskatchewan through the facilities of Foothills (Sask.). To provide this transportation service to Saskatchewan Power Corporation, a new Small General Service Agreement was submitted for the approval of the Board.

5. Provision for the Abatement of Depreciation on Zone 9

In the Phase IV(b) Decision, the Board indicated that the content of the service agreements, pertaining to TransCanada's use of the facilities of Foothills (Sask.) Zone 9, was found to be substantially in agreement with the throughput obligations of TransCanada as established in the Phase IV(a) Decision. However, a detailed examination of the provision for abatement of depreciation, as contained in the subsidiary tariff, was deferred for consideration in a later toll hearing. This matter was reviewed in these proceedings.

OTHER ISSUES

1. Amendments to the Eastern Leg Final Design Cost Estimates

In the Board's Reasons for Decision of August 1981, the Eastern Leg FDCE were approved. Subsequent to this approval, certain conceptual changes developed which affected the design and operating arrangement of the Eastern Leg. Accordingly, the Company applied to have its Eastern Leg FDCE amended.

2. Furniture, Equipment and Leasehold Improvements

As of 31 December 1981, Foothills (Yukon) had expended a total of $2,886,418 in connection with furniture, equipment and leasehold improvements. Neither the expenditures, nor a method of allocation to subsidiary companies or zones, had been approved by the Board. As a result, the Applicant requested approval of both the inclusion of the expenditures in the rate base and the method of allocation.

3. Approval of the 1981 Preliminary Expenditures

The Company incurred some $67,425,000 in preliminary expenditures related to Zones 1 to 5. The Company requested approval of these expenditures for inclusion in the rate base.

4. Request for Amortization of and Return on the Mainline Preliminary Expenditures

The Applicant requested that it be allowed to include in the prebuild cost of service amounts related to the amortization of and the return on the mainline preliminary expenditures which are related to the main Alaska Highway Natural Gas Pipeline Project and include the expenditures referred to in item 3.

5. Administrative Charge

In the supplemental application, Foothills (Yukon) proposed deleting Sections 8.3 and 8.4(b) of the Company's Administrative Charge from the Gas Transportation Tariff, Rate Schedule T-1, and replacing these with sections dealing with charges for preliminary expenditures and the allocation thereof.

6. Request for Changes in Rates of Depreciation under the Prebuild Tariff

In previous decisions, the Board had approved a special rate of depreciation for Zones 6, 7 and 8 that would permit total recovery of capital expenditures by the end of the term of the associated export licences and a 50 percent recovery for Zone 9.

The Company, in a supplementary application, requested changes that would lower, for a period, the rates of depreciation on the prebuild. The purpose of these changes was to deal with potential income tax problems and to take into account the possibility of the export licences for gas flowing through the prebuild being extended in the near future.

CHAPTER II

WESTERN LEG

1. Request for Changes in the Incentive Rate of Return Scheme

On 20 August 1981, the Board issued Order No. TG-5-81 giving details of:

> "...the method of applying the Incentive Scheme under the Northern Pipeline Act for the determination of the Return on the Equity Investment in the prebuild portions of the pipeline certificated under that Act to Foothills Pipe Lines (Yukon) Ltd. and its subsidiaries."

Foothills (Yukon) has now applied for a change in the method of applying the IROR Scheme with respect to the timing of the calculations to establish the one-time adjustment to rate base.

Under Order No. TG-5-81 (Appendix I attached), there are two specific points in time when calculations are to be made. First, the "cost performance ratio" for a zone shall be calculated at the time final leave-to-open for prebuild facilities in that zone is granted by the Board. This ratio is obtained by dividing the actual capital costs of the facilities to that date, including accruals for costs incurred but not yet booked, by the corresponding final design cost estimates, that is, the FDCE approved by the Board less the provision in the estimates for costs to complete construction which have not been incurred. Using this ratio, the second calculation under the Order shall be made at the commencement of operation of prebuild facilities in the zone, at which time a one-time adjustment to rate base will be established based on the equity component of the investment in rate base at that time.

As a result of problems being encountered by the Company in establishing actual costs of construction, including accruals for costs not yet booked, as of these two specific points in time, i.e., final leave-to-open and commencement of operations, Foothills (Yukon) has requested that the effective date of both these calculations be deferred until all construction costs are recorded on the books of the Company. For Zones 7 and 8, 31 March 1982 was the suggested date, being six months after commencement of operations on 1 October 1981, while for Zones 6 and 9 a delay of approximately nine months from commencement of operations was

proposed. As the Company pointed out, these delays in completing the calculations would simplify the phased-in start up of additional facilities such as the Kingsgate Meter Station, which was not added to rate base until 31 December 1981. The Board has already approved the use of a provisional rate base, including a provisional one-time adjustment based on an estimated cost performance ratio, for tariff purposes from commencement of operations until such time as the actual costs of construction have been audited and reviewed by the Board for rate base purposes.

The Board recognizes the problems being encountered by the Company in accruing costs incurred but not yet booked at specific points in time other than year ends. However, the Board would like to indicate to the Company that in spite of its current application for deferral of the effective date of the calculations under the IROR Scheme, the Company will still be required to establish actual costs of construction as of the date of final leave-to-open in a zone for the purpose of the Zone 11 Incentive Scheme as contained in Annex III to the Canada/U.S. Agreement, which is Schedule I to the Northern Pipeline Act.

The Applicant was questioned as to the manner in which the GNP deflator was used to deflate costs. The methodology used in the initial filing of the calculation was found by the Board to be unacceptable due to the incorrect application of the GNP price deflator. The Applicant resubmitted the calculation based upon the table below.

<u>Implicit GNP Deflator</u>

	1971=100	1980 2Q=100
1980 2Q	221.4	100.0
3Q	226.6	102.3
4Q	231.1	104.4
1981 1Q	237.9	107.5
2Q	241.5	109.1
3Q	249.1	112.5
4Q	256.8	116.0
1982 1Q	263.7	119.1

Also included in the resubmission of the calculation was a downward adjustment of the FDCE for Zone 8 from $66,779,000 to $64,776,000, being a reduction of $2,003,000 because modifications to rotating assemblies of existing Alberta Natural Gas Company Ltd compression facilities had not been required.

Decision

Until such time as the audit of all construction costs has been completed for all facilities in a zone and the Board has had an opportunity to review those costs for rate base purposes, the Board approves the use, for tariff purposes, of the provisional one-time adjustments as filed during this hearing. The finalization of rate base, including the one-time adjustment, for each of Zones 7 and 8 will be completed when all the costs of the prebuild facilities have been transferred to gas plant in service. At that time, the Board will establish the appropriate cut-off date. Finalization of the calculations for Zones 6 and 9 will depend on the completion of the final audit of construction costs, which will include those booked in 1983.

The Board approves the calculations under the IROR scheme of the cost-performance ratio and the one-time adjustment to rate base for the prebuild facilities in a zone on the basis of the total cost of construction. In accordance with the foregoing decision, the Board has amended Board Order No. TG-5-81 (see Appendix II to this report - AO-1-TG-5-81)).

In respect of the issue related to the use of the GNP deflator, the Board finds the amended manner of applying the deflator to be acceptable.

The Board accepts the reduction of $2,003,000 in the FDCE for Zone 8.

2. Rate Base

The Applicant requested approval of the actual costs of construction up to 31 March 1982 for inclusion in the Western Leg rate base. The actual costs for which Foothills (Yukon) sought approval are as follows:

	Costs to 31 Dec/81	Costs Jan-March/82	Total
Zone 7	$92,661,000	$419,000	$93,080,000
Zone 8	$81,135,000	$837,000	$81,972,000

The actual costs to 31 December 1981 agree with the actual costs as reported in the Touche Ross & Co. Audit Report for the year ended 31 December 1981. The Company stated that the 1982 costs were also actuals; however, these costs have not yet been audited. The Company also stated that the 1982 costs resulted from late invoicing and represented primarily land damage costs and reconciliation adjustments.

Under questioning about specific costs, the Company agreed that the cost of "hot tie-in" work was included in the main contract and in the contractor's original target price. The Applicant estimated that the price included for the work in the main contract was $200,000 plus or minus $50,000. Each tie-in was to be done as the pipeline was constructed.

Later ANG requested that all tie-in work be done at the same time so as to minimize the disruption of gas sales. Hence, the Applicant signed a supplementary $1.3 million contract with Marine Pipeline Construction Company for completion of the hot tie-ins in this manner.

In view of the high dollar value of the supplementary contract, the Board is of the opinion that the original cost estimate of hot tie-ins should have been at least $250,000. The Board would therefore normally have reduced the supplementary contract figure by this amount. However, target price contract practice calls for any excess costs over the contract price to be subject to a reduction. Marine was in the fourth 10 percent reduction factor under the main contract and therefore, payment of this hot tie-in item should be reduced by 40 percent or $100,000.

In the list of extra work orders for Zone 8, the Company requested $10,260 as an extra cost relating to cutting out and replacing three oversize joints (extra work order no. 23). Under cross-examination, the Company agreed that these costs should be recovered from the supplier under the terms of their procurement contract.

<u>Decision</u>

The Board provisionally approves, subject to audit, the costs of construction for the period 1 January to 31 March 1982 for

inclusion in the rate base for Zones 7 and 8. With respect to actual construction costs to 31 December 1981, the Board approves the actual costs as applied for in Zone 7. In respect of Zone 8, the Board does not approve $10,260 relating to extra work order no. 23, and $100,000 relating to the hot tie-ins. The following represents the provisional rate bases as adjusted:

Zone	Application	N.E.B. Adjustments	Provisional N.E.B. Approval
7	$93,080,000	nil	$93,080,000
8	$81,972,000	($110,260)	$81,861,740

3. Operating and Maintenance Expense Variance for 1981

The Applicant requested approval to include in its cost of service the 1981 deferred operating and maintenance costs in excess of budgeted amounts, together with accrued interest thereon.

Board Order AO-2-TG-6-81 orders Foothills (Yukon) not to include in the tolls to be charged any amounts on account of operating and maintenance expenses which are in excess of the approved budgets until the Board otherwise directs. This Order also allows Foothills (Yukon) to apply a carrying charge equal to the Canadian Imperial Bank of Commerce prime lending rate plus one percent to the difference between the amounts billed to the shippers and the amounts so approved by the Board. Foothills (Yukon) is not to include this carrying charge in its tolls and tariffs until the Board otherwise directs.

The Company requested approval of a total overrun on the three month operating and maintenance expenses for Zones 7 and 8 of $279,300. This amount was subjected to National Energy Board audit and the Board finds it acceptable.

Foothills (Yukon) also requested approval of carrying charges for Zones 7 and 8. These carrying charges were properly calculated in accordance with Board Order AO-2-TG-6-81.

The Gas Transportation Tariff for Zones 7 and 8 also provides for a carrying charge of the minimum lending rate plus one percent to be applied on the variance between the shipper's share of the Company cost of service and the shipper's base billing amount.

Under cross-examination, the Company agreed that it had overbilled its shipper and, consequently, according to the Gas Transportation Tariff, should allow its shipper interest on the overpayment calculated in accordance with the Gas Transportation Tariff.

The Company was also questioned as to whether prime plus one percent was still the appropriate rate to use for calculating interest on its deferral accounts, especially considering that the Touche Ross & Co. Audit Report indicates the loan agreement provides for an operating line of credit at the prime rate.

Decision

The Board hereby approves the overrun on operating and maintenance expenses of $279,300 as applied for by the Company and the carrying charges calculated thereon. However, the Board directs that the carrying charge calculated on any operating and maintenance overrun as per Board Order AO-2-TG-6-81 be offset against the carrying charge applied to the excess cost of service billing as shown in Appendix I of the National Energy Board Audit Report dated May 1982. The carrying charge on the excess cost of service should be calculated in accordance with the Phase I Gas Transportation Tariff, General Terms and Conditions, Section 5.7.

The Board does not accept the Company's position that the appropriate rate for deferrals should be prime plus one percent. Accordingly, the Board orders that for all deferrals resulting from variances in operating and maintenance expenses or cost of service billings, the interest rate to be used, effective from 1 September 1982, will be the Canadian Imperial Bank of Commerce current prime lending rate. Tariff revisions should be filed accordingly, including revisions to Section 5.7 of the Tariff of each of the subsidiary companies.

CHAPTER III

EASTERN LEG

1. Cost of Service

The Company filed an estimate of the 1982 cost of service for Zones 6 and 9 covering the four-month operating period ending 31 December 1982, which, as revised, is as follows:

	Zone 6	Zone 9
Operating and Maintenance	$ 599,900	$ 1,057,300
Return on Rate Base	22,266,000	16,803,000
Depreciation	4,961,000	3,732,000
Income Taxes	5,261,000	4,543,000
Amortization of IROR	124,000	108,000
Taxes-Other than Income Taxes	1,496,000	1,240,000
TOTAL COST OF SERVICE	$34,707,900	$27,483,300

As explained in the August 1981 Decision, at page 13-1, under the "The NEB's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline", a listing is provided of those costs which the Board is prepared to flow-through into the cost of service automatically, provided that either the principles or methods of computation have been previously approved, or that the costs are largely outside the control of the Company.

With respect to the estimated 1982 cost of service provided above, Foothills (Yukon) has specifically requested approval of the provisional rate base on which the estimated return on rate base for each zone has been calculated (see section 2 below); the rate of return having already been approved in the Phase III Decision. The Company also requested approval of the operating and maintenance expense budgets for 1982 (see section 3 of this chapter). Depreciation has been calculated at an annual rate of four percent, in line with the request for change in rates of depreciation reviewed in Chapter IV, section 5. The provision for income taxes on a normalized basis, and amortization of the IROR adjustment at four percent per annum, are as previously approved by the Board. Taxes, other than income taxes, are reviewed in section 4 of this chapter.

2. <u>Rate Base and Incentive Rate of Return</u>

The Applicant requested approval, for inclusion in the provisional rate base, of the actual cost of construction to 31 December 1981 and the estimates of costs to complete in 1982.

The costs for which the Applicant requested approval are as follows:

	1981 Actual Costs	1982 Estimates to Complete
Zone 6 - Direct	$ 138,343,000	$ 175,166,000
- Foothills (Yukon)	9,591,000	20,283,000
- AFUDC	14,870,000	34,246,000
TOTAL	$ 162,804,000	$ 229,695,000
Zone 9 - Direct	$ 180,598,000	$ 78,758,000
- Foothills (Yukon)	13,091,000	9,120,000
- AFUDC	17,895,000	33,945,000
TOTAL	$ 211,584,000	$ 121,823,000

In Zone 6, the Applicant has forecasted that all facilities except Compressor Station 367-2 will receive leave to open on 1 September 1982. Compressor Station 367-2 is forecast to receive leave to open on 1 January 1983.

In Zone 9, the Applicant has also forecasted that all facilities except Compressor Stations 391 and 392 will receive leave to open on 1 September 1982. Compressor Station 392 is forecast to receive leave to open on 1 November 1982, and Compressor Station 391 on 1 January 1983.

The actual costs to 31 December 1981, including AFUDC, agree with the amounts shown in the Touche Ross & Co. Audit Report.

The 1982 costs submitted are estimates and will be the subject of an audit when the actuals are incurred.

In filing the estimates to complete for Zone 6, the Company included an estimate of $9,140 for small diameter pipe. This estimate was subsequently reduced to $4,187 necessitating an adjustment of $4,953.

The Company applied for approval to include in rate base a provisional one-time adjustment to rate base, as provided for under the IROR scheme. For the purpose of calculating the provisional one-time adjustment, a cost performance ratio of 1.0 had been assumed.

Decision

The Board hereby approves the actual costs to 31 December 1981 for provisional rate base. However, the Board directs that the 1982 estimates to complete be adjusted as follows:

Zone	Application	N.E.B. Adjustments	Provisional N.E.B. Approval
6	$229,695,000	($4,953)	$229,690,047
9	$121,823,000	nil	$121,823,000

Based on an earlier request by the Company, the Board will accept the inclusion in the provisional rate base of actual costs as incurred in 1982 to complete construction within the limits of the total estimate by zone as approved herein. The 1982 costs will be examined by the Board in a future proceeding when the audit thereof has been completed, at which time the Board will review them for permanent inclusion in rate base.

The Board accepts the assumption of a cost performance ratio of 1.0 for purposes of calculating provisional one-time adjustments to rate base for the Eastern Leg, and approves the inclusion in the provisional rate base for Zone 9 of the calculation as filed. However, in view of the adjustment to the 1982 estimates to complete for Zone 6 above, the Company is required to recalculate the provisional one-time adjustment for inclusion in the provisional rate base of that zone.

3. 1982 Operating and Maintenance Budgets

The Company filed operating and maintenance expense budgets for Zones 6 and 9 for 1982 totalling, as amended, $599,900 and $1,057,300 respectively, covering an expected period of operation of four months, from 1 September 1982 to 31 December 1982.

In Zone 6, the estimate of $599,900 is made up of two charges, a Foothills (Yukon) administrative charge totalling $149,600 and a budget for the operation of the zone prepared by NOVA, the operator of Zone 6, totalling $450,300. Similarly, in Zone 9, the estimate is made up of a Foothills (Yukon) administrative charge totalling $139,300 and a budget for the operation of the zone prepared by TransCanada, the operator of Zone 9, totalling $918,000. Foothills (Yukon) administrative charges to the zones were prepared on the basis of the budgeted direct labour costs of each Foothills (Yukon) department which will have operating costs for the zones.

The budget for the operation of Zone 6 prepared by NOVA allocates to the Company both a portion of NOVA's estimated costs of operating in the district and a portion of the return, depreciation and income taxes relating to NOVA's facilities in the zone that are used by both the Company and NOVA. The budget for the operation of Zone 9, prepared by TransCanada, estimates the direct costs that TransCanada will incur in the operation of Zone 9 and allocates a portion of TransCanada's administrative expenses to the zone by applying an overhead rate to the estimated cost of gross salaries and fringe benefits for the zone.

Decision

The Board approves the four-month operating and maintenance budgets for Zones 6 and 9 filed by the Company as amended.

4. Taxes - Other than Income Taxes

The Company has included in its estimate of the 1982 cost of service, property taxes estimated at 1.18 percent of gas plant per year.

Under the Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline, municipal or property taxes are, in the absence of unusual circumstances, allowed to flow through automatically into the cost of service.

Decision

No unusual circumstances having been identified, and in the absence of specific information on property assessments and mill rates, the Board finds the provision for property taxes as filed for inclusion in the estimate of the 1982 cost of service to be reasonable.

5. Off-Line Gas Sales in Saskatchewan

Foothills (Yukon) applied to the Board for approval of a Small General Service Rate Schedule and Service Agreement for the Phase I Tariff to provide service to domestic off-line customers in the Province of Saskatchewan.

The Board reviewed the tariff which, with the proposed changes to Articles 2.1 and 3 of the Service Agreement, appeared to be satisfactory. However, the Service Agreement between Foothills (Yukon) and Saskatchewan Power has not been signed and a number of basic terms or conditions have not been finalized, including contract quantities and the number and location of the sales taps. In addition, the Board must assess the technical aspects of the taps and be assured by Saskatchewan Power that it is prepared to incur the capital and operating costs associated with each sales tap. Until these matters have been finalized to its satisfaction, the Board is not prepared to approve the Small General Service Agreement.

6. Provision for the Abatement of Depreciation on Zone 9

Section 8.4 - Depreciation Expense, of the Rate Schedule of Foothills (Sask.)'s Gas Transportation Tariff, states in part:

> "...all depreciation charges under subsection 8.4(b) hereof shall abate and no such depreciation shall be accrued,... for any projected Contract Year occurring prior to the commencement of transportation by Company of Alaskan Gas or the tenth anniversary of the Billing Commencement Date in which the projected licensed exports of gas under the contract dated March 9, 1978 between Northwest Alaskan Pipeline Company and Pan-Alberta Gas Ltd. ...for transport through Zone 9 of the Phase I facilities total less than two and eight hundred and thirty-three thousand (2.833) billion cubic meters, and in which the sum of projected licensed exports for transport through Zone 9 of all Foothills Pipe Lines (Yukon) Ltd., shippers during such Contract Year is less than seven and eighty-two thousand (7.082) billion cubic meters; provided further that the number of such Contract Years during which no depreciation shall accrue shall not be more than four (4)."

In its Phase IV(b) Reasons for Decision, the Board deferred consideration of this subsection, the provision for abatement of depreciation, for consideration in a later toll hearing. In this hearing, the Board examined the abatement provision and found it to be satisfactory. However, the Board may wish to examine the provision in further detail at a later date if TransCanada applies to the Board for adjustment in the Zone 9 depreciation rates (see Chapter IV, Section 6, "Depreciation") and if the abatement provision is to be triggered.

CHAPTER IV

OTHER ISSUES

1. Amendments to Eastern Leg Final Design Cost Estimates - FDCE

The Applicant requested amendments to the Eastern Leg FDCE as originally approved by the Board in its August 1981 Reasons for Decision. The requirement for these amendments arose from certain conceptual changes which developed and affected the design and operation of the Eastern Leg. The main conceptual changes involved adding NOVA as a shipper on the transmission system, providing for access to a gas stripping plant at Empress for Alberta volumes leaving the province, and changing volumes to be transmitted by the existing shippers. As a result of the system design changes mentioned above, it became necessary to integrate the existing NOVA and Foothills (Yukon) Eastern Leg pipeline systems in Alberta. It also became necessary to construct one additional compressor station (Station 391) in Saskatchewan earlier than originally planned. The Applicant indicated that the above changes would enable more efficient utilization of the combined NOVA/Foothills (Yukon) systems. The design changes have been approved by the NPA.

The amendments requested by the Applicant are as follows:

	(000)-4Q-80 Base		
	Zone 6	Zone 9	Total
1. Original NEB Approved (FDCE)	$337,093	$277,107	$614,200
2. Proposed Amendments			
(a) Pipeline Interconnecting Facilities	2,522	1,559	4,081
(b) Richmond Compressor Station No. 391	-	29,285	29,285
(c) Modifications to other Compressor Stations	673	1,031	1,704
TOTAL REVISED FDCE	$340,288	$308,982	$649,270

During cross-examination by the APMC, the Company agreed that the pipeline interconnecting facilities in Zone 9 would not be needed for the prebuild system until the mainline is built and Alaskan gas comes on stream.

In compiling the cost estimate for Compressor Station 391 and the interconnecting facilities, the Company was supplied with material prices from its Procurement Division. Approximately 60 percent of the material item prices were based on actual contract prices.

The material costs for the compressor and driver, the high pressure gas system and the aerial cooler system represent approximately 85 percent of the total material costs of the work outlined in the cost estimate, i.e., the interconnecting facilities and the construction of Compressor Station 391.

During the hearing, the Applicant stated that a five percent contingency was applied to the material costs because there was uncertainty over the quantity of each item required and also in the delivery date.

In the case of the higher-priced items such as the compressor and driver, the aerial cooler, suction scrubber and unit control module, only one of each of these items is required and quantities are therefore definite. As to the uncertainty of delivery, the Company has indicated that it will apply for leave to open for Compressor Station 391 by January 1983.

It is unlikely therefore that there is much uncertainty as to delivery dates. In addition, the current strike of tradesmen at the compressor station, which may affect the completion date of the station, should give the suppliers of materials added time to ensure delivery.

The Board recognizes that other items of materials, such as valves, pipe bends, etc., may not be precisely estimated and late order for such items could result in a late delivery.

As to the compressor and driver, the aerial cooler, the suction scrubber and unit control module, the Board considers these items to be excluded from the uncertainties as to quantities or deliveries.

The Board considers a five percent contingency too high for application to those material costs which are excluded from the uncertainty of quantity or delivery; therefore, on the items listed in the table below, the applicable contingency is reduced to $2\frac{1}{2}$ percent.

		Material Contingency Provision		
Station 391 Component	Cost (000)	As Filed	Reduced to	Reduction (000)
Compressor & Drive	$7,957	5%	$2\frac{1}{2}$%	$199
Induced Draft Aerial Cooler	1,219	5%	$2\frac{1}{2}$%	30
Unit Control Module & Cooler Control Module	748	5%	$2\frac{1}{2}$%	19
Suction Scrubber	287	5%	$2\frac{1}{2}$%	7
TOTAL REDUCTION				$255

The evidence showed that 90 percent of the installation cost estimates for the interconnecting facilities in Zones 6 and 9 were based on contractor bid prices and that 100 percent of the Compressor Station 391 estimated installation costs were based on contractor bid prices.

To the installation costs, the Company applied a 10 percent contingency and 12 percent for extras.

In evidence, the Company claimed that the contingency covered expenses due to delays in the construction schedule. However, the Touche Ross & Co. 1981 Audit Report indicates that costs caused by strikes were covered in extra work orders or extras. The Company also claimed in prepared evidence that the extras would in part be caused by a tight design and construction schedule.

The distinction in the application between contingencies and extras was not made clear during the hearing; it appears that the Company has included both extras and contingencies to cover similar unforeseen events. Extras and the contingencies amount to 12 percent plus 10 percent of the total installation costs, some 22 to 23 percent. In view of the high proportion of bid prices used for the formation of the cost estimate, the Board considers 23 percent too high an addition.

As outlined in the table below, the Board considers that the ten percent contingency should be reduced to two percent to allow for any uncertainties on the relatively small portion of the costs in the estimate which are not based on bid prices.

		Installation Contingency Provision		
Component	Cost ($000)	As Filed	Reduced to	Reduction ($000)
Interconnecting Facilities Zone 6	778	10%	2%	62
Station 391	6,322	10%	2%	506

The Applicant was also questioned on the manner in which the GNP deflator was used to express costs in fourth quarter 1980 dollars (this is discussed in more detail on page 6 of this report).

Decision

Accordingly, the Board requires the following adjustments to be made to the Eastern Leg FDCE at this time:

	Zone 6	(000)-4Q-80 Base Zone 9	Total
Total Revised FDCE	$340,288	$308,982	$649,270
Less NEB Adjustments			
(a) Pipeline Interconnecting Facilities	-	1,559	1,559
(b) Installation Contingency	62	-	62
(c) Compressor Station 391			
- Installation Contingency	-	506	506
- Material Contingency	-	255	255
NEB APPROVED FDCE (subject to adjustments for PFUDC and the GNP deflator as per the following paragraph)	$340,226	$306,662	$646,888

The Board's decision in respect of the application of the GNP deflator to the Eastern Leg FDCE is similar to its finding concerning the Western Leg IROR. The Board finds the Company's application of the GNP deflator incorrect. Therefore, the Applicant is ordered to refile the adjusted FDCE reflecting the correct application of the GNP deflator and recalculating PFUDC as per the adjusted FDCE.

2. Furniture, Equipment and Leasehold Improvements

By 31 December 1981, the Company had expended $2,886,418 in connection with furniture, equipment and leasehold improvements. To date, these expenditures have neither been approved for inclusion in rate base nor has a method of allocation been approved for them. The Company has applied to allocate the expenditures for furniture, equipment and leasehold improvements to the subsidiary companies commencing 1 January 1981, and consequently in its application has calculated AFUDC for each subsidiary for 1981 on its allocated portion of the furniture, equipment and leasehold improvements and has calculated return on rate base, income taxes and depreciation

for the period 1 October 1981 to 31 December 1981 for Zones 7 and 8. Under the method of allocation for which the Company sought approval, furniture, equipment and leasehold improvements would be allocated to a subsidiary based on the ratio of capitalized expenditures of the subsidiary company to total capitalized expenditures of the project companies excluding Foothills (Yukon) Pre-Permit and Foothills (North Yukon).

The Board does not disagree with the methodology put forward by the Company. However, it is the Board's view that the Company's submission, if accepted, would constitute retroactive rate making. During argument, counsel for the Company made a distinction between "fixed cost regulation" and "cost of service regulation", and pointed out that under the latter "a shipper enters into a cost of service tariff which is a contract in which he specifically agrees that the transportation charge will vary from month to month and further where the transporter shall be permitted to retrospectively adjust its rates to reflect changes which occur in the actual cost of service". Notwithstanding the definition of "cost of service regulation" submitted by counsel for the Company, the Board does not consider the issue being dealt with to be simply an adjustment to reflect actual costs.

Decision

The Board approves the Company's method of allocation of expenditures for furniture, equipment and leasehold improvements as set forth in its application. The allocation is to be effective from 1 September 1982, and AFUDC, return on rate base, depreciation and income taxes will be calculated at the subsidiary company level on the allocated amounts from that date.

3. Approval of the 1981 Preliminary Expenditures

The Applicant requested that the Board approve preliminary expenditures of $67,425,000 for the year ended 31 December 1981. This amount is composed of $37,953,000 in expenditures and $29,472,000 of AFUDC, and is in agreement with

the figures indicated on page 4 of the Touche Ross & Co. Audit Report. Page 62 of that report indicates that certain adjustments will be processed in 1982.

The Company is seeking approval of payments to the Yukon Government in respect of annual amounts of up to $350,000 maximum for each of the years 1980 and 1981 to cover the costs in the Yukon relating to the establishment and administration of a Yukon Government pipeline agency. The Company included an accrual of $350,000 in its application heard by the Board under Order RH-3-81, for approval of the 1980 preliminary exenditures, and has included an accrual of $350,000 in respect of that agreement in the present application.

During the hearing, it was determined that no payments were made under the aforementioned agreement and in addition the agreement itself had not been finalized as of 29 June 1982. The Company, in evidence, indicated that it had obtained a legal opinion that the payments would be in accordance with Item 14 of Annex 4 to the Canada/U.S. Agreement.

The Board notes that Item 14 of Annex 4 of the Agreement between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline refers to "Costs of surveillance and related studies as required by regulatory bodies or applicable laws", and that subsection (a) of Section 11 of the aforementioned Agreement states under Direct Charges by Public Authorities that "Consultation will take place at the request of either government to consider direct charges imposed on the Pipeline where there is an element of doubt as to whether such charges should be included in the cost of service".

Decision

The Board is of the opinion that an element of doubt exists, at present, as to whether the accruals in 1980 and 1981 in respect of payments to the Government of the Yukon constitute a direct charge by the public authority under the aforementioned

Canada/U.S. Agreement. Of even greater significance is paragraph 5(b)(ix) of the same agreement which states:

> "(ix) It is understood that indirect socio-economic costs in the Yukon Territory will not be reflected in the cost of service to the United States shippers other than through the Yukon Property Tax. It is further understood that no public authority will require creation of a special fund or funds in connection with construction of the Pipeline in the Yukon, financed in a manner which is reflected in the cost of service to U.S. shippers, other than through the Yukon Property Tax. However, should public authorities in the State of Alaska require creation of a special fund or funds, financed by contributions not fully reimbursable, in connection with construction of the Pipeline in Alaska, the Governments of Canada or the Yukon Territory will have the right to take similar action."

Therefore, the Board rescinds its decision of August 1981 thereby reducing the preliminary expenditures for 1980 by $350,000. As to the ultimate disposition of the 1980 accrual and the $350,000 accrual in the current application, the Board defers its decision. The Applicant may file a statement of material facts in support of the aforementioned accruals for payments and advising as to the status of the agreement with the Government of the Yukon, following which the Board would reconsider the matter.

Concerning the remainder of the 1981 preliminary expenditures, exclusive of AFUDC, the Board approves these expenditures subject to verification in 1982 that the adjustments indicated on page 62 of the Touche Ross & Co. Audit Report have been processed by the Company in a manner satisfactory to the Board. In addition, the Board directs that any return on, or amortization of, the mainline preliminary expenditures shall reflect the adjustments required by this section.

With reference to AFUDC the Board in its August 1981 Decision, at page 5-4, made the following provision for AFUDC on Preliminary Expenditures:

> "For the period after 31 July 1980, any expenditures under the Agency Agreements, until they have been 'rolled down', will be allowed an AFUDC rate equal to the sponsor companies' rate of return on rate base. For the same period, AFUDC will be calculated on expenditures incurred by Foothills (Yukon) and its subsidiaries, including costs which have been 'rolled down', at the actual cost of debt of the Foothills subsidiary companies plus a return at the non-incentive rate on equity funds used."

Also in the August 1981 Decision, at page 8-1, the Board reminded Foothills (Yukon) that in the event that there was an amendment to the Agency Agreement with its sponsor companies, there was a requirement not only for the filing of a copy of the amended Agreement but also

> "to specify and illustrate how the amounts approved to that date by the Board for inclusion in rate base of Foothills (Yukon) or its subsidiaries are to be transferred from sponsor, affiliates, or Foothills (Yukon) Agency Accounts to the plant account of Foothills (Yukon) and its subsidiaries."

The Touche Ross & Co. Audit Report for 1981 indicated that the Phase II (mainline) costs were "rolled down" effective 1 January 1981.

The Audit Report also indicated that Foothills (Yukon) has used the non-incentive rates applicable to Zones 1 to 5 to calculate AFUDC for 1981 on preliminary expenditures identified with the mainline.

Although the Board in its August 1981 Reasons for Decision gave approval for the "roll down" of costs to be included in the provisional rate base, the amount of the transfer was subject to any necessary variation upon completion of the audit and the adjustments for AFUDC. Furthermore, the Board required the filing of an illustration of the transaction including examples of all accounting entries used.

With respect to the 1981 "rolldown", the Board has not received an illustration of the transaction, examples of all accounting entries used, or a copy of any amendment to the Agency Agreement.

Consequently the Board is unable to approve the calculation of AFUDC for 1981 until the filings indicated above have been made and the Board is satisfied therewith.

4. Request for Amortization of and Return on the Mainline Preliminary Expenditures

The Company requested that it be allowed to include in the prebuild cost of service an amortization of and a return on approximately $204 million of preliminary expenditures incurred during the pre-1979 to 31 December 1981 period. All but the approximately $67.4 million of 1981 expenditures have been previously approved for inclusion in the mainline rate base.

The Applicant initially proposed that the mainline expenditures be amortized at four percent per year until four years before the end of existing or any new export licences associated with prebuild facilities, at which time the unamortized balance would be recovered through a so-called "basket clause" in equal annual amounts over the remaining life of the export licences. The rate of return proposed by the Company for these expenditures was 17.5 percent pre-tax (approximately 8.75 percent after tax). The Company implied that by accepting a pre-tax rate of return (i.e. no provision for income taxes), it was recognizing that an equitable distribution of the burden between Foothills (Yukon) and those who benefitted from the project was 50/50. The Board notes that this may be somewhat mitigated in the sponsors' hands by the leverage that they may have achieved by investing in Foothills (Yukon). During the hearing, the Applicant revised its proposal with respect to amortization by requesting that the rate of amortization for the $204 million be at 4 percent per annum until at least 1988. At this point, the basket clause provision would come into effect (i.e., amortization would be 4 percent per annum until 4 years before the end of the terms of the export licences).

The Company argued that these expenditures were made in pursuit of a single project which resulted in the completion of the prebuild facilities and that no part of the project would have been built without expenditures on the whole. When questioned as to why the sponsors needed the cash flow now when in fact they had at one time seemingly been prepared to do without it until 1987, the Applicant indicated that in order to continue support of the project at a reasonable level it would have to have some return on this investment during the prebuild phase. In addition, it was stated that the financial community could view the sponsors as imprudent if they did not receive some cash return from these preliminary expenditures at the same time as investing in the mainline and that, generally speaking, it would be more difficult for Foothills (Yukon) to obtain future financing. The Applicant added that the investment community views capitalized carrying charges less favourably than it does cash earnings.

The Company indicated that it did not view the application for inclusion of the mainline preliminary expenditures as in any way establishing any precedent in respect of the future treatment of the ongoing mainline expenditures.

The Applicant was questioned by the APMC as to its rationale for the preliminary expenditures being allowed to earn a project risk premium in order to compensate the project sponsors for the increased risk of project abandonment and non-completion during the construction phase. In response, the Company stated that even if the preliminary expenditures were allowed, there is still a risk of non-collection.

Decision

Having considered the evidence and arguments, the Board concludes that the prebuild tariff should include some charges with respect to the preliminary expenditures. This conclusion recognizes that, although a part of the burden associated with these expenditures will be borne by the Alberta producers in the short run, there is the expectation that they will be reimbursed in the long run once the mainline proceeds.

In respect of the amortization of the preliminary expenditures, the Board accepts the rate applied for, i.e., four percent per annum until 1 November 1988. The Board rejects at this time the Company's position that these expenditures should be amortized at a rate higher than four percent after 1988. At the appropriate time, if it becomes evident that the mainline is unlikely to be completed within the reasonably foreseeable future, the Company may then apply for reconsideration of the rate of four percent of these expenditures.

As to the rate of return on the unamortized balance, the Board has noted Foothills (Yukon)'s statement to the effect that the subject preliminary expenditures were not incurred solely for the benefit of the prebuild project. It further notes the Applicant's acknowledgement that these expenditures would have benefitted both phases of the project. In these and other statements, forming part of the record of the hearing, there was an implied recognition that an equitable distribution of the "burden" of these costs would be an even split between the Company and the Alberta producers.

Accordingly, the Board accepts the Company's argument that it should earn its return on a pre-tax basis, thereby distributing the return portion among itself and those who benefitted from increased exports, the Alberta producers. However, the Board does not agree that these expenditures should earn a return of 17.5 percent, which is the non-incentive rate containing a project risk premium designed to compensate the project sponsors for the risk of non-completion. In the view of the Board, this risk has been significantly reduced by the decision to allow a cash return on, and recover some of, these mainline expenditures under the prebuild tariff. Therefore, the Board finds that a return should be allowed on the unamortized balance and that the rate of return on this balance be 16 percent calculated on a pre-tax basis; that is, no income tax provision is allowed in the prebuild cost of service in respect

of the return on or amortization of these expenditures. This would also apply should the method of calculating the provision for income taxes be on a flow-through basis. The Board's decision results in an after-tax return of approximately eight percent.

As to the amount of expenditures to which the approved rate shall apply, the Board is concerned that if the Company were to earn a return on and amortize the full $204 million of preliminary expenditures, this would not result in the desired sharing of the burden between the Alberta producers and the Company, inclusive of its sponsors. The Board recognizes that the incurrence of the preliminary expenditures generated certain income tax benefits in the hands of the sponsor companies. In order to avoid double recovery, the Board is of the opinion that the amount of the preliminary expenditures to be included in the prebuild cost of service should be net of any income tax benefits which the sponsor companies have received or will receive as a result of incurring these expenditures. Under cross-examination by the APMC, witnesses for the sponsor companies indicated that, assuming a 50 percent tax rate, the actual expenditures less tax benefits were $132 million. These expenditures were estimated by reducing the $204 million by the amount of AFUDC, estimated to be $60 million, and multiplying the remaining $144 million by the assumed corporate income tax rate of 50 percent, yielding $72 million to which was added the AFUDC of $60 million.

The Board's decision is that the approved amortization and rate of return shall apply to an amount corresponding to the $132 million mentioned above, adjusted to reflect actual figures and to take account of all applicable decisions set forth in this report. One such adjustment shall be the exclusion of AFUDC for 1981 until such time as it may be approved by the Board following receipt of the filings described in section 3 of this chapter. The amount to be amortized at this time will not be increased by further expenditures or further accumulations of

AFUDC subsequent to 31 December 1981. However, the residual of the $204 million which has been excluded from the above amortization and return will continue to accumulate AFUDC.

The Board requires that all references to the charge in the Tariff shall be designated the "Special Charge - Phase II Preliminary Expenditures". In respect of the method of allocating this "Special Charge" (the amortization and return on preliminary expenditures) to zones, the Board accepts the Company's proposal of allocating the costs on the basis of volume/distance.

In approving these charges for inclusion in the prebuild cost of service at this time, the Board requires provision to be made that when the mainline commences operation the Alberta producers of natural gas will be compensated with interest for having been required to absorb these charges. To this end, the Board plans to amend the special regulations in respect of depreciation charges in excess of four percent, which are currently in preparation, to provide for such compensation. However, in the meantime, the Board believes that before any amounts related to the mainline preliminary expenditures are included in the prebuild tariff, a commitment from the Company undertaking to effect the repayment to the producers should be provided to the Government of Canada. Accordingly, the Board will only approve the subject tariff revision upon being satisfied that the appropriate written commitment and the appropriate tariff amendments have been made. In addition, the Company is required to file with the Board for its approval, details specifying and illustrating how the amount to be amortized and the revenue generated therefrom will be accounted for on the books of Foothills (Yukon) and its subsidiaries.

The dollar amounts quoted in this section of the report are from the application and adjustments shall be made to reflect all decisions set forth in this report. The effective date for inclusion of these amounts in the prebuild tariff shall be the date of commencement of operation of the Eastern Leg, subject to the appropriate filings having been made to the satisfaction of the Board.

5. Administrative Charge

In the supplemental application, Foothills (Yukon) proposed deleting from the Gas Transportation Tariff, Sections 8.3 - Company's Administrative Charge and 8.4(b) covering allocations to the Zone Cost of Service, and replacing these with sections dealing with charges for preliminary expenditures and a changed method of allocation.

Decision

The Board was not convinced of the necessity for the deletion of Secion 8.3 - Company's Administrative Charge. Therefore, this Section and Section 8.4(b), dealing with the allocation thereof, shall be retained. The sections dealing with charges for preliminary expenditures are approved including the method of allocation on a volume/distance basis subject to the changes required by Chapter IV, section 4. Re-numbering and refiling of these sections is required.

6. Request for Changes in Rates of Depreciation under the Prebuild Tariff

In its supplemental application, Foothills (Yukon) requested a change from the currently approved depreciation rates to an effective rate of four percent per annum from the commencement of operations of the facilities until four years before the expiry of the associated export licences, with the undepreciated balance being written-off over the last four years (basket clause) of the export licences.

With respect to Zones 7 and 8 this would result in no further depreciation charges until such time as the depreciation previously charged in these zones equals the depreciation which would have been charged had the four percent depreciation rate been in effect from the date the facilities went into service. Under the proposed changes, as under the present depreciation rates, if there were no extension of the term of the existing export licences, then at the expiry of the current export licences the prebuild facilities in Zones 6, 7 and 8 would be fully depreciated, and the facilities in Zone 9 would be reduced to 50 percent of capital costs.

The effects of this proposed change would be to significantly reduce Foothills (Yukon)'s current cost of service and, if the term of the export licences of Foothills (Yukon)'s shippers were extended, to continue that reduction well into the future. The proposed change would also delay and perhaps eliminate potential problems resulting from depreciation charges which are higher than capital cost allowances permitted under the Income Tax Act. The Applicant identified the two main problems as: a significant increase in the cost of service resulting from an application for flow-through income tax to cover the additional income taxes payable on the difference between depreciation and CCA; and, at a later date, the necessity to seek the remission of income tax and establish a refund procedure in respect of additional taxes paid.

Foothills (Yukon) supported the need for the basket clause by emphazising that the cash flow from depreciation provided the credit underpinning for its financial arrangements and that, without the assurance that the original costs would be recovered through depreciation over the term of the export licences, the Company could not have obtained financing for the pipeline. In its supplemental application, Foothills (Yukon) stated that the basket clause would be operative four years "before the term of the export licences for which the facilities are being utilized." The Board understands this to mean the basket clause would be triggered four years before the expiry of current or future export licences issued to Foothills (Yukon)'s shippers. However, in the tariff revisions filed with the supplemental application, Foothills (Yukon) established a fixed date of 31 October 1983 for triggering the basket clause. In cross-examination, Foothills (Yukon) maintained its position with respect to the fixed date for triggering the basket clause.

The Board favours maintaining flexibility in regard to the date for triggering the basket clause thereby extending for as long as possible the period during which the four percent depreciation rate is in effect. The Board therefore requires Foothills (Yukon) to amend the revised tariff pages

accordingly, i.e., to correspond to its supplemental application. The Applicant shall advise the Board prior to reverting to the higher depreciation rates under the basket clause.

The APMC argued for a longer depreciable life for Foothills (Yukon)'s facilities in Zones 6, 7 and 8 on the basis that these facilities would be used by the parties in those zones beyond the expiry date of the current export licences issued to Foothills (Yukon)'s shippers. Foothills (Yukon) rejected APMC's argument by reiterating the position that the project was financed on the basis of the licensed volumes of gas that were to be moved through the pipeline.

The Board accepts the Foothills (Yukon) position that the financing must be tied to licensed volumes of gas to be moved through the pipeline. However, if those licensed volumes of gas are increased - for example, through an extension of the term of the export licences - the Board will expect those changes to be reflected through appropriate adjustments to Foothills (Yukon)'s loan agreements.

Foothills (Yukon) advised that its lenders required an additional fee of 1/16 of 1 percent of the outstanding indebtedness to reschedule its debt repayments on the basis of reducing the rate of depreciation to four percent to 31 October 1983. The amount of this fee was stated to be $517,000. The Board accepts that this amount should be included in Foothills (Yukon)'s cost of service.

Foothills (Yukon) also advised that if the four percent depreciation rate were extended beyond 31 October 1983, there would be an additional charge in the form of either an up-front fee, an adjustment in interest rates or an adjustment in other terms of the loan agreement. Since the additional financial charges may be significant over the life of the pipeline, the Board requires Foothills (Yukon) to submit its proposals for financial arrangements to the Board before incurring any additional financial obligations.

TransCanada indicated that its backstop obligations in the future may be greater to Foothills (Sask.) than to Northern Border as a result of the transmission of additional volumes of gas originating in the United States. The Board recognizes TransCanada's concern but will make no tariff changes in respect of this issue at this time. Depending upon the nature of the Board's decision on export volumes, TransCanada may later make application to the Board with respect to changes in Zone 9 depreciation rates, should that be required either because of the transmission of additional United States volumes on Northern Border or because of future decisions on export volumes issued by the Board.

Decision

The Board approves a four percent depreciation rate for Zones 6, 7, 8 and 9 and a basket clause to be triggered four years before the expiry of the term of existing or future export licences issued to Foothills (Yukon)'s shippers. The Board requires Foothills (Yukon) to amend its tariff pages accordingly. The Applicant shall advise the Board prior to implementing the higher depreciation rates under the basket clause.

The basket clause will provide for full depreciation of prebuilt facilities in Zones 6, 7 and 8, and at least 50 percent depreciation of prebuilt facilities in Zone 9 by the expiry date of the export licences. However, effective from 1 September 1982 there will be no depreciation charges levied under the Cost of Service for Zones 7 and 8 until such time as the depreciation previously charged in these zones equals the depreciation which would have been charged had the four percent depreciation rate been in effect from the date the facilities went into service.

The Board approves the inclusion in Foothills (Yukon)'s cost of service of the financial fee of $517,000 in respect of the current rescheduling of debt repayments. As to any future payments of this nature, the Company is required to submit its proposals to the Board for approval before incurring any additional financial obligations.

CHAPTER V

DISPOSITION

Throughout the preceding chapters, the Board has recorded a number of decisions. The foregoing, together with Orders AO-1-TG-5-81 and TG-4-82, which are shown as Appendices II and III hereto, set forth our Decision in this matter.

R.F. Brooks
Presiding Member

J.L. Trudel
Member

R.B. Horner
Member

Ottawa, Canada
August 1982

NATIONAL ENERGY BOARD | OFFICE NATIONAL DE L'ÉNERGIE

CANADA

ORDER NO. TG-5-81

IN THE MATTER OF the National Energy Board and the Regulations made thereunder, and of the Northern Pipeline Act,

AND IN THE MATTER OF the method of applying the Incentive Scheme under the Northern Pipeline Act for the determination of the Return on the Equity Investment in the prebuild portion of the pipeline certificated under that Act to Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)") and its subsidiaries. File No. 1505-F6-1.

B E F O R E the Board on Thursday, the 20th day of August, 1981

WHEREAS under the Northern Pipeline Act the rate of return on the equity invested in the pipeline is to be determined by the cost efficiency in the construction of the pipeline;

AND WHEREAS the National Energy Board (hereinafter referred to as "the Board") in January, 1979, published a revised version of its "Proposed Approach to the Incentive Rate of Return for the Northern Pipeline" first published in October, 1978;

AND WHEREAS in its Reasons for Decision dated November, 1979, resulting from Phase III of the public hearing held pursuant to Order No. RH-2-79, the Board determined the method to be followed and the parameters to be applied in implementing the Incentive Rate of Return Scheme, subsequently modified in the Reasons for Decision dated March, 1980, resulting from Phase IV(a) of the said hearing to establish, in relation to prebuild facilities, Final Design Cost Estimates as the basis for cost performance measurement under the said Scheme;

AND WHEREAS the Board deems it expedient to set out the method to be followed and the parameters to be applied in implementing the said scheme for prebuild facilities;

IT IS ORDERED THAT:

1. This Order applies to every company as that term is defined in the Act.

2. In this Order:

"Act" means the Northern Pipeline Act;

"actual capital costs for prebuild facilities" means the actual cost of construction of prebuild facilities in a zone, plus the cost of interconnections to existing pipeline systems, including costs incurred but not yet booked accrued on a basis to be approved by the Board, determined in accordance with paragraph 3 at the time final leave to open for prebuild facilities in a zone is granted by the Board;

"Allowance for Funds Used During Construction" or "AFUDC" means an allowance for the use of funds expended during the construction period of the facilities whether or not such funds have been borrowed;

"centre point" means the cost performance ratio that is associated with the centre rate;

"centre rate" means the rate of return on equity equal to the sum of the operation phase rate, the project risk premium and the IROR risk premium;

"constant dollars" means dollars of a period identified by the Company without provision for inflation;

"cost performance ratio" means the quotient obtained by dividing the actual capital costs for prebuild facilities by the corresponding final design cost estimates as calculated under paragraph 4;

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"equity" means common equity;

"final design cost estimates" means the detailed cost estimates for each zone referred to in Condition 16(a) of Schedule III to the Act;

"final leave to open" means the last leave to open granted by the Board under Section 38 of the National Energy Board Act required before the commencement of operation of prebuild facilities in a zone, but does not include any leave to open granted for interconnecting facilities to existing pipeline systems in that zone which cannot be completed until a date later than the remainder of the prebuild facilities in that zone;

"incentive rate of return" means the rate of return on equity invested in the pipeline;

"IROR risk premium" means the premium to compensate investors for the risk introduced by the variability in the allowed rate of return implied by the adoption of the incentive rate of return;

"marginal rate" means the return on the incremental dollars invested in equity to move from one cost performance ratio to another;

"non-incentive rate" means the rate of return on equity equal to the sum of the operation phase rate and the project risk premium;

"operation phase rate" means a rate of return on equity similar to that allowed by the Board on natural gas pipelines in Canada of similar operating risk;

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"Prebuild Tariff" means the tariff as approved in Phase II Reasons for Decision dated October, 1979, amended in Phase IV(b) Reasons for Decision dated May, 1980, following a Public Hearing set down by Board Order No. RH-2-79 dated April 12, 1979;

"prebuild facilities" means those pipeline facilities built as necessary to transmit gas of Canadian origin before the pipeline is placed in service for transmitting Alaskan gas;

"project risk premium" means the premium to compensate investors for the construction and completion risks unique to the pipeline project that, when added to the operation phase rate, equals the non-incentive rate;

"Provision for Funds Used During Construction" or "PFUDC" means the provision for a finance charge to be included in the actual capital costs and the final design cost estimates;

"zone" means a zone set out in Annex II of the Agreement.

3.(1) The actual capital costs for prebuild facilities within a zone shall be deflated to constant dollars using the GNP price deflator in a manner to be determined by the Board, and shall include PFUDC calculated in accordance with paragraph 5.

(2) Subject to subparagraph (3), in determining the actual capital cost for prebuild facilities pursuant to subparagraph (1), there shall be excluded

(a) AFUDC;

(b) any costs referred to in Section 29 of the Act;

(c) working capital;

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(d) property taxes; and

(e) the effect of increases in cost or delays arising subsequent to the date of filing of the final design cost estimates caused by actions attributable to the U.S. shippers, related U.S. pipeline companies, Alaskan producers, the Prudhoe Bay deliverability or gas conditioning plant construction and the United States or State Governments.

(3) Where the appropriate regulatory bodies of Canada and the United States are unable to agree upon the amount to be excluded on account of the effect of the increases in cost or delays referred to in subparagraph (2)(e), the determination shall be made in accordance with the procedures set forth in Article IX of the Transit Pipeline Treaty.

4.(1) The final design cost estimates shall be expressed in constant dollars and shall include PFUDC calculated in accordance with paragraph 5.

(2) Final design cost estimates shall exclude the following:

(a) AFUDC;

(b) any costs referred to in Section 29 of the Act;

(c) working capital; and

(d) property taxes.

(3) The final design cost estimates in respect of prebuild facilities in a zone shall be filed with the Board.

(4) Where the designated officer approves the procurement of equipment based on lifetime costs, the final design cost estimates shall be increased by such adjustments as the Minister or the designated officer may approve.

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(5) An adjustment referred to in subparagraph (4) shall be based on the difference in capital cost between the approved procurement of equipment referred to in that subparagraph and the equipment that would have been selected based on capital cost alone, and shall be deflated to constant dollars using the GNP price deflator in a manner to be determined by the Board.

(6) Notwithstanding subparagraphs (1) to (5), the final design cost estimates used in calculating the cost performance ratio for facilities in a zone shall exclude estimates of costs not incurred at the time final leave to open is granted for those facilities.

5.(1) PFUDC shall be calculated by the company at an annual rate of 11.7 per cent, compounded annually.

(2) The addition of PFUDC shall cease on the date that final leave to open is granted for pipeline facilities in a zone.

(3) The amount of PFUDC shall be subject to the approval of the Board.

6.(1) AFUDC to be included in the rate base shall be determined monthly by the company.

(2) In respect of debt and preferred shares of the company, AFUDC shall be the actual costs incurred.

(3) In respect of the equity component of the funds, AFUDC shall be one-twelfth the non-incentive rate applied to the average of the opening and closing balances in the equity accounts of the company for the previous month, and shall include the equity component of any previously capitalized AFUDC.

(4) The amount of AFUDC to be capitalized shall be subject to the approval of the Board.

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7.(1) For purposes of this Order, the rate of return on equity shall be

(a) in respect of the operation phase rate, 16.00 per cent for zones 6 to 9;

(b) in respect of the non-incentive rate, 17.5 per cent for zones 6 to 9;

(c) in respect of the incentive rate of return, the rate of return as determined in accordance with paragraph 9; and

(d) in respect of the marginal rate, 10 per cent for each zone.

(2) In determining the incentive rate of return in accordance with paragraph 9, the centre rate shall be 17.90 per cent for zones 6 to 9.

8. The centre point for each zone shall be 1.0.

9.(1) Subject to subparagraph (2), the incentive rate of return expressed as a percentage for each of Zones 6 to 9, shall be the marginal rate plus the quotient obtained by dividing 7.90 by the appropriate cost performance ratio.

(2) The incentive rate of return for any zone shall not be less than 14.5 per cent.

10.(1) Subject to subsection (2), a one-time adjustment to the rate base approved by the Board for a zone shall be determined by the company for that zone in accordance with paragraph 11.

(2) Any adjustment determined pursuant to subsection (1) shall be subject to the approval of the Board.

11. An adjustment referred to in paragraph 10 shall be determined by

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(a) calculating the equity component of the investment in the rate base, excluding working capital but including AFUDC, as approved by the Board on the commencement of operation of the prebuild facilities, and determining the dollar value of the equity component in each of the next twenty-five operating years on the assumption that the equity is fully recovered by depreciation charges in equal annual installments over the twenty-five year period;

(b) multiplying the dollar value of the equity component in each year by the difference between the incentive rate of return calculated in accordance with paragraph 9 and the operation phase rate;

(c) determining the present value of the amounts calculated in accordance with subparagraph (b) using the operation phase rate as the discount rate; and

(d) adding the present value referred to in subparagraph (c) to the rate base for the zone.

12. A one-time adjustment to the rate base referred to in paragraph 11 shall be recovered as a component of the cost of service by amortization at 4 per cent per annum on a straight line basis.

NATIONAL ENERGY BOARD

G. Yorke Slader

G. Yorke Slader
Secretary

NATIONAL ENERGY BOARD — CANADA — OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-TG-5-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and of the Northern Pipeline Act,

AND IN THE MATTER OF the method of applying the Incentive Scheme under the Northern Pipeline Act for the determination of the Return on the Equity Investment in the prebuild portion of the pipeline certificated under that Act to Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)") and its subsidiaries. File No. 1505-F6-1.

B E F O R E the Board on Thursday, the 12th day of August 1982.

WHEREAS under the Northern Pipeline Act the rate of return on the equity invested in the pipeline is to be determined by the cost efficiency in the construction of the pipeline;

AND WHEREAS the National Energy Board (hereinafter referred to as "the Board") in January, 1979, published a revised version of its "Proposed Approach to the Incentive Rate of Return for the Northern Pipeline" first published in October, 1978;

AND WHEREAS in its Reasons for Decision dated November, 1979, resulting from Phase III of the public hearing held pursuant to Order No. RH-2-79, the Board determined the method to be followed and the parameters to be applied in implementing the Incentive Rate of Return Scheme, subsequently modified in the Reasons for Decision dated March, 1980, resulting from Phase IV(a) of the said hearing to establish, in relation to prebuild facilities, Final Design Cost Estimates as the basis for cost performance measurement under the said Scheme;

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AND WHEREAS the Board issued Order No. TG-5-81 to set out the method to be followed and the parameters to be applied in implementing the said scheme for prebuild facilities;

AND WHEREAS upon application by Foothills (Yukon) the Board deems it expedient to alter the method set out in Order No. TG-5-81 in respect of the timing of the calculations thereunder;

IT IS ORDERED THAT:

1. The definition of "actual capital costs for prebuild facilities" in paragraph 2 of Board Order No. TG-5-81 is revoked and the following substituted therefor:

> "actual capital costs for prebuild facilities" means the actual total cost of construction of prebuild facilities in a zone plus the cost of interconnections to existing pipeline systems, including costs incurred but not yet booked, accrued on a basis to be approved by the Board determined in accordance with paragraph 3 at the time when the total cost of the prebuild facilities in a zone has been transferred to Gas Plant in Service; and

2. Board Order No. TG-5-81 is further amended by revoking paragraph 4(6) thereof.

3. Board Order No. TG-5-81 is further amended by revoking paragraph 11(a) and substituting the following therefor:

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11(a) calculating the equity component of the investment in the rate base, excluding working capital but including AFUDC, as approved by the Board when the total cost of the prebuilt facilities in a zone has been transferred to Gas Plant in Service, and determining the dollar value of the equity component in each of the next twenty-five operating years on the assumption that the equity is fully recovered by depreciation charges in equal annual installments over the twenty-five year period;

Dated at the City of Ottawa, in the Province of Ontario, this 12th day of August, 1982.

NATIONAL ENERGY BOARD

G. Yorke Slader

G. Yorke Slader
Secretary

NATIONAL ENERGY BOARD — CANADA — OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TG-4-82

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and of the Northern Pipeline Act; and

IN THE MATTER OF the tariff and tolls to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)") in the operation of its prebuild facilities in Zones 6 to 9, and other related matters, File No. 1562-F6-3.

B E F O R E the Board on Thursday, the 12th day of August 1982.

WHEREAS Foothills (Yukon) filed with the National Energy Board (hereinafter referred to as "the Board") an application dated the 7th day of May 1982, for an Order or Orders respecting its tolls for the prebuild facilities in Zones 6, 7, 8 and 9;

AND WHEREAS the Board issued Order No. RH-5-82, dated the 13th day of May 1982, setting the application down for a public hearing, together with various matters specified in the Order related to the tariffs and tolls to be charged by Foothills (Yukon) in respect of the transmission of natural gas through the prebuild facilities in Zones 6 to 9.

AND WHEREAS Foothills (Yukon) filed a supplemental application dated the 18th day of May 1982 respecting its tolls;

AND WHEREAS a public hearing was held in the City of Ottawa, in the Province of Ontario, commencing on the 28th day of June 1982, at which the Board heard evidence and submissions of Foothills (Yukon) and other interested parties;

AND WHEREAS the Board has, following a public hearing held pursuant to Order No. RH-5-82, dated the 13th day of May 1982,

at which all interested parties were heard, made certain determinations respecting the tariff and tolls to be charged by Foothills (Yukon) in the operation of the prebuild facilities;

AND WHEREAS the Board, having considered the evidence and submissions, is satisfied that the tolls to be charged by Foothills (Yukon) in accordance with this Order are just and reasonable;

IT IS ORDERED THAT:

1. Foothills (Yukon) and its subsidiaries shall, effective on the day of commencement of operation of the prebuild facilities in Zones 6 and 9, and effective on the 1st day of September 1982 for Zones 7 and 8, charge in respect of natural gas transmitted by it through the said facilities in each month only those tolls for each such month as are determined in accordance with this Order and with:

(a) Order No. TG-1-79, as amended by Order No. AO-1-TG-1-79, and Order No. TG-4-79, Order No. TG-2-81, and Order No. TG-5-81 as amended by Order No. AO-1-TG-5-81;

(b) The Board's Reasons for Decision dated August 1981, resulting from the public hearing held under Order No. RH-3-81;

(c) The Board's Reasons for Decision dated July, October, and November 1979, and March, May and June 1980, resulting from the public hearing held under Order No. RH-2-79;

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(d) The Board's Reasons for Decision dated August 1982, resulting from the public hearing held under Order No. RH-5-82.

2. In this Order:

"Foothills (Alta.)" means Foothills Pipe Lines (Alta.) Ltd., a subsidiary of Foothills (Yukon), which will own, operate and manage the prebuild facilities in the province of Alberta;

"Foothills (South B.C.)" means Foothills Pipe Lines (South B.C.) Ltd., a subsidiary of Foothills (Yukon), which will own, operate, and manage the prebuild facilities in the province of British Columbia;

"Foothills (Sask.)" means Foothills Pipe Lines (Sask.) Ltd., which will own, operate and manage the prebuild facilities in the province of Saskatchewan;

"prebuild facilities" means the portion of the Foothills (Yukon) pipeline built to transmit for export natural gas of Canadian origin before the remainder of the pipeline is placed in service for the transmission of Alaskan gas.

3. Foothills (Yukon) shall recalculate, in accordance with this Order and the Reasons for Decision dated August 1982, referred to in paragraph 1, and file for the approval of the Board:

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(a) A revision of the Final Design Cost Estimates for prebuild facilities in Zone 8 incorporating the adjustment as approved;

(b) A revision of the Final Design Cost Estimates for prebuild facilities in Zones 6 and 9 incorporating the adjustments as approved and reflecting the correct application of the GNP deflator and a recalculation of PFUDC;

(c) A revised estimate of the one-time adjustment to rate base of Foothills (Alta.) and to the rate base of Foothills (South B.C.) for prebuild facilities in Zones 7 and 8 respectively, following the procedures set out in Order No. TG-5-81 as amended by Order No. AO-1-TG-5-81 incorporating the revised estimates described in subparagraph (a), the correct application of the GNP deflator, and the reduction in Zone 8 rate base as per the Reasons for Decision dated August 1982;

(d) A revised estimate of the one-time adjustment to rate base of Foothills (Alta.) for prebuild facilities in Zone 6 reflecting the reduction in the provisional rate base as per the Reasons for Decision dated August 1982;

(e) The rate base of Foothills (Alta.) and the rate base of Foothills (South B.C.) for prebuild facilities in Zones 7 and 8 respectively, calculated as of

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1 September 1982 and incorporating the recalculated adjustments described in subparagraphs (a) and (c), and allocations of furniture, equipment and leasehold improvements as per the Reasons for Decision dated August 1982;

(f) The rate base of Foothills (Alta.) and the rate base of Foothills (Sask.) for prebuild facilities in Zones 6 and 9 respectively, calculated as of the expected date of commencement of operation of the facilities in those zones, and incorporating the recalculated adjustments described in subparagraphs (b) and (d), and allocations of furniture, equipment and leasehold improvements as per the Reasons for Decision dated August 1982;

(g) In respect of amounts approved for recovery in the Cost of Service under the Phase I Tariff arising from the mainline preliminary expenditures, details specifying and illustrating how the amount to be amortized and the revenue generated therefrom will be accounted for on the books of Foothills (Yukon) and its subsidiaries;

(h) The estimated total cost of service for 1982, calculated as of 1 September 1982, applicable to the transportation of natural gas in each of Zones 7 and 8, and incorporating a return on equity of 16 percent,

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income taxes calculated on a normalized basis, amortization of and return on mainline preliminary expenditures as per paragraph 8 and depreciation calculated as per paragraph 5;

(i) The estimated total cost of service for 1982, calculated as of the expected date of commencement of operation of the facilities in each zone, applicable to the transportation of natural gas in each of Zones 6 and 9, and incorporating a return on equity of 16 percent, income taxes calculated on a normalized basis, depreciation as per paragraph 5 and amortization of and return on mainline preliminary expenditures as per paragraph 8;

(j) With respect to the "roll down" of preliminary mainline expenditures up to 31 December 1981 from the sponsors to Foothills (Yukon) and its subsidiaries, an illustration of the transaction and the accounting entries, and a copy of any amendments to the Agency Agreement;

(k) A letter of commitment to the Canadian Government indicating that a repayment of amounts received under the Phase I Tariff in respect of the mainline preliminary expenditures will be refunded to the Alberta producers when Alaskan gas flows through the Foothills (Yukon) system;

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(l) Revised tariff sheets incorporating:

(i) the provision for recovery under the Cost of Service of amounts as approved in respect of the Special Charge - Phase II Preliminary Expenditures, as per paragraphs 8, 9 and 10

(ii) the change in depreciation rates as per paragraphs 5 and 6, and

(iii) the changes in interest rate as per paragraph 11.

4. For the purpose of determining the tolls to be charged in respect of the transmission of natural gas through the prebuild facilities in each month, Foothills (Yukon) shall calculate its cost of service for each such month in accordance with the procedure set out in the Gas Transportation Tariff - Phase I, modified as necessary in accordance with this Order, and incorporating:

(a) a return on equity of 16 percent,

(b) taxes calculated on a normalized basis, and

(c) where applicable, the recalculated amounts approved by the Board pursuant to paragraph 3.

5. Foothills (Yukon) shall charge depreciation expense in respect of Zones 6, 7, 8 and 9, at a rate of four percent per annum, until such time as existing or future export licences have a remaining term of four years. Over those last four years, Foothills (Yukon) and its subsidiaries are authorized to fully depreciate the undepreciated prebuild facilities in Zones 6, 7 and 8, and to reduce the undepreciated prebuild facilities in Zone 9 to at least 50

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percent of capital cost. Thereafter, for Zone 9 the remaining 50 percent shall be depreciated on the basis of volumes of throughput in accordance with the Board's Reasons for Decision dated March 1980.

6. Notwithstanding paragraph 5 of this Order, no depreciation charges shall be levied under the Cost of Service for Zones 7 and 8 until such time as the depreciation previously charged in these zones equals the depreciation which would have been charged had the four percent depreciation rate been in effect from the date the facilities went into service.

7. Prior Board approval is required for any financial fees associated with the renegotiation or rescheduling of debt repayment, other than those previously approved in the August 1982 or other Board Reasons for Decision.

8. Upon filing in a matter satisfactory to the Board, the items indicated in paragraph 3, subsections (g) and (j) to (l)(i) inclusive, Foothills (Yukon) may include in the prebuild cost of service for Zones 6 through 9, amounts related to the amortization of and return on the mainline preliminary expenditures up to 31 December 1981. Such amounts are not to exceed four percent for amortization of the amount approved by the Board, plus 16.0 percent of the unamortized balance of the same amount. Furthermore, the provision for income taxes collected in the prebuild cost of service is not to increase as a result of inclusion of these amounts related to the mainline preliminary expenditures, regardless of the method of establishing the income tax provision (i.e., the normalized or

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flow-through method). Amortization of and return on the mainline preliminary expenditures is to cease on 1 November 1988, unless otherwise approved by the Board.

9. The amount referred to in paragraph 8 shall be recorded in the books of Foothills (Yukon) in a subaccount of account 179 - Other Deferred Debits, established for that purpose.

10. Foothills (Yukon) shall retain Section 8.3 - Company's Administrative Charge of the Gas Transportation Tariff, Rate Schedule T-1, along with the method of allocation presently contained in Section 8.4(b). Sections dealing with the Special Charge - Phase II Preliminary Expenditures should be renumbered and reworded according to this Order and the August 1982 Reasons for Decision, and filed with the Board.

11. For all deferrals resulting from variances in operating and maintenance expenses or cost of service billings, the interest rate to be used, effective from 1 September 1982, will be the Canadian Imperial Bank of Commerce current prime lending rate. Tariff revisions should be filed accordingly including revisions to Section 5.7 of the tariff of each of the subsidiary companies.

12. Foothills (Yukon) shall revise its Gas Transportation Tariff-Phase I, in accordance with the Reasons for Decision dated August 1982, and wherever necessary, to make the said tariff calculations correspond to the calculations or methods of calculation referred to in this Order or in the Reasons for Decision

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referred to in paragraph 1 of this Order, and shall forthwith serve a copy of each page so revised on the Board, on every known shipper of natural gas through the prebuild facilities, and on each party to the public hearing held pursuant to RH-5-82.

13. In calculating the rate bases of Foothills (Alta.) and Foothills (Sask.) for each month, Foothills (Yukon) shall include as additions to rate base actual expenditures in the year 1982 on construction of prebuild facilities up to the limits of $229,690,047 for Zone 6 and $121,823,000 for Zone 9, and shall not include any expenditures in excess of those limits until the Board otherwise directs.

14. The approved budgets for Operating and Maintenance Expense for Foothills (Alta.) and Foothills (Sask.) in Zones 6 and 9, respectively, shall be one-fourth of $599,900 and $1,057,300 respectively, for each month or part thereof during which the pipeline is operated during 1982.

15. Foothills (Yukon) shall not include in the tolls to be charged any amounts on account of Operating and Maintenance Expenses which are in excess of the budgets approved in paragraph 14, until the Board otherwise directs.

16. Any provision of the Foothills (Yukon) tariff and tolls, or any portion thereof, that is contrary to any Order of the Board, or to any determination of the Board contained in any of the Reasons for Decision referred to in paragraph 1, is hereby disallowed effective on 1 September 1982.

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DATED at the City of Ottawa, in the Province of Ontario, this 12th day of August, 1982.

NATIONAL ENERGY BOARD

G. Yorke Slader

G. Yorke Slader
Secretary